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# OVERVIEW

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## THE PRESIDENT'S FY 2001 BUDGET A Realistic Budget Plan?

*"This election is about putting power back in your  
hands and putting government back on your side.  
It's about putting people first."*

Governor Bill Clinton  
Democratic National Convention  
"A New Covenant" -- July 16, 1992

*"The era of big government is over."*

President Bill Clinton  
State of the Union Address  
January 23, 1996

*"He really waited 35 years from the last time  
Democrats had an aggressive and dynamic idea of what could  
be done working through government...this era may be another one of those times."*

Senate Minority Leader Tom Daschle  
Congress Daily  
February 4, 2000

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President Clinton's \$1.8 trillion farewell budget address to the country represents a carefully constructed political document designed more for the election this fall, than for a vision of the country's fiscal future. It is a throwback to a past age of government activism that, if fully implemented, would risk the very future it ascribes allegiance to protect.

**Debt held by the public and Social Security Surplus.** First, by protecting the social security surpluses, the \$3.5 trillion debt held by the public will decline and be eliminated, under any scenario over the next decade. Once the President finally agreed with Republicans last year that the social security surplus should not be spent, it is somewhat ironic that the President's 2001 budget now claims to propose a fiscally responsible budget of paying down the debt of this country. A year ago the President proposed to spend the social security surplus. It was the Congress last year that convinced the President to protect social security surpluses and in so doing retire debt held by the public.

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**Non-Social Security Surplus.** So the critical question in reviewing the President's 2001 budget is: what does he propose to do with the non-social security surpluses expected to accumulate over the next decade? Different answers to this question will be given dependent on what one estimates to be the non-social security surplus. A policy neutral starting point is the Congressional Budget Office's (CBO) baseline estimate assuming spending on discretionary accounts remain unchanged from their current levels. Using this starting point, CBO estimates that over the next decade non-social security surpluses will total over \$1.859 trillion.

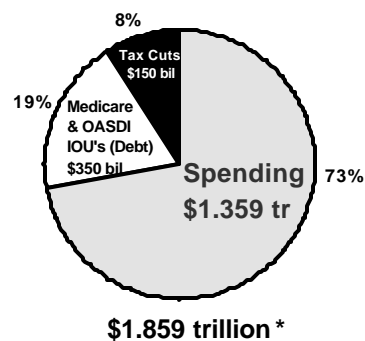
Preliminary estimates of the President's 2001 budget proposals to "use" this surplus are as follows:

1. Increases in discretionary spending: \$1,110 billion.
2. Medicare and other entitlement spending including spending from tobacco taxes: \$ 249 billion.
3. Medicare and social security I.O.U.'s deposited in the trust funds as debt reduction: \$ 350 billion.
4. Net tax reduction, excluding tobacco tax increases: \$ 196 billion.
5. Net tax reduction, including tobacco taxes: \$ 150 billion

The President's 2001 budget therefore proposes to spend about 73 percent of the projected non-social security surplus over the next decade. He proposes to use about 19 percent of it for claimed debt reduction through increasing Medicare and social security trust funds' future liabilities and finally, he proposes to return 8 percent of the surplus to the American taxpayer. Clearly some portion of the projected surplus will be spent on needed investments in our national security, health and education, agriculture, and drug and crime fighting programs. But the fundamental question to be addressed by the Congress and the President as they debate the 2001 budget will remain: how is this surplus to be allocated between spending, tax reductions, and debt reduction beyond the nearly

### President's Use of 10-year Non-S.S. Surplus

Preliminary Estimates: FY 2001 - FY 2010



\* CBO Estimate -- Discretionary Spending at 2000 Level.

\$3.4 trillion that will automatically result from protecting social security?

**Spending.** Is the President's proposed spending of this surplus realistic? Hardly. It is unrealistic to assume that President Clinton's exit recommendations will be implemented not only by his successor next year, but by his successor's successor. That is what his budget assumes.

It is unrealistic and fiscally naive to put the federal government's spending programs on automatic pilot for over a decade. This is what the President's budget would do. Using this form of budgeting, programs – literally from the past century or programs that needed funding only in 2000 (e.g. the decennial census) – would live on into perpetuity whether needed, effective, or justified. The President's budget clearly assumes over a trillion dollars in spending over the next decade compared to simply continuing discretionary spending at their 2000 funding level.

The President's budget proposes to adjust the discretionary spending caps upward by over \$72 billion in spending authority in 2001 to a total of \$614 billion. Even compared to the final actions of Congress in 2000 (\$570 billion) spending authority would increase nearly \$44 billion. While claiming to restore "budget conventions", the President's own budget proposed to pad the FY2001 appropriation bills with \$14.4 billion, by gaming advanced appropriations in that year!

It is a carefully structured political budget designed to place the governing party in Congress in the position of having to reduce the President's request for discretionary education and health care programs to maintain the very fiscal discipline the President claims to achieve.

It is not realistic and it is not fiscally responsible to propose that the Department of Health and Human Services' discretionary budget will increase 10.8 percent next year, more than five times the rate of inflation. It is not realistic and it is not fiscally responsible to propose that the Department of Education's discretionary budget will increase 36.6 percent next year, nearly ten times the rate of inflation and then frozen in 2002! Is it realistic to assume that the Department of Labor's budget will increase 39.9 percent in 2001 and then remain flat in 2002? Is it realistic to assume that discretionary spending for the Department of Veterans would increase 5.3 percent in 2001 and then remain flat in 2002?<sup>1</sup> The President's claimed mandatory offsets to some of these increases have been debated by this Congress and repeatedly rejected.

**Taxes.** It is not realistic to assume, with taxes at an all time high as a percentage of the economy, that the Congress would consider making them even higher. The President's budget – his own numbers

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<sup>1</sup>Table 5.4: Discretionary Budget Authority by Agency: 1976-2005. The Budget for Fiscal Year 2001, Historical Tables, p. 98. Feb. 7, 2000.

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– actually show a net increase in revenues in 2001 of \$9.1 billion. Included in this figure is the transfer of nearly \$3.8 billion in Federal Reserve surpluses, a continuation of the President's budgetary gimmicks from last fall.

Even over the next five years, correctly accounting for refundable EITC tax credits as outlays, the President's budget has practically no net tax cut. On net over the ten year horizon, the President's budget, correctly accounted, shows a net tax cut of \$150 billion – not the advertised \$330 billion gross tax cut. Is it realistic to assume, with a Congress that did not even consider the President's proposals last year to increase tobacco taxes, somehow this year they will quickly adopt nearly \$70 billion in such taxes? Is it realistic to assume that an additional \$115 billion in "corporate loopholes and tax shelters," most all of which were rejected by this Congress last year will now suddenly be acceptable?

**Future Liabilities.** Finally, the President's budget once again is unrealistic and dangerous as it relates to long-term budget liabilities. It is an unrealistic budget plan that pretends to extend social security solvency while simply increasing the tax burden on future generations and denying current workers and their families substantive tax relief. By creating \$350 billion new Social Security and Medicare I.O.U.'s out of the projected non-social security surplus, the President has effectively denied a tax cut to millions of Americans today.

By claiming to extend the solvency of Social Security and Medicare while proposing no fundamental changes, the budget sets up a false expectation that these programs require no changes. In fact, some changes, such as expanding Medicare to cover prescription drug benefits and expanding coverage to those between the ages of 55 and 65 all costing over \$203 billion, could actually reduce the program's solvency unless other substantive changes are adopted.

The President's own budget documents recognize that transferring more I.O.U.'s into the Social Security and Medicare trust funds does not substantively address the long term liabilities of these programs. While suggesting that the President's policy framework is designed to increase the government's ability to pay future Social Security and Medicare benefits, it nonetheless offers this very big caveat:

"However, this enhanced ability to pay does not arise from the building up of large trust fund balances *in and of itself*." Analytical Perspectives, Budget of the United States Government, FY 2001, pg. 345.

**PRESIDENT'S BUDGET FOR 2001**  
(\$ Billions)

	<b>1999 Actual</b>	<b>2000 Estimate</b>	<b>2001 Request</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Total Spending	1,703	1,790	1,835	1,895	1,963	2,041	2,125
Social Security	321	329	340	350	360	372	385
Rest of Government	1,382	1,461	1,495	1,545	1,603	1,669	1,741
Total Revenues	1,827	1,956	2,019	2,081	2,147	2,236	2,341
Social Security	444	477	500	522	544	567	599
General Revenues	1,383	1,479	1,519	1,559	1,603	1,669	1,742
Total Surplus	124	167	184	186	185	195	215
Social Security	123	148	160	172	184	195	214
Rest of Government	1	19	24	14	—	—	2
Gross Federal Debt	5,606	5,686	5,769	5,855	5,947	6,034	6,118
Debt held by the public	3,633	3,476	3,305	3,134	2,963	2,781	2,578